


**MEMORANDUM**

**Date:** May 11, 2011

**To:** University of Minnesota Deans, Chancellors, CDO's and Financial Officers

**From:** Kathleen Pickard, Vice President & CFO 

**Re:** Quasi Endowment Fund Initiatives

In an effort to optimize endowment pool investment performance and liquidity management, UMF is initiating two quasi endowment fund changes. The effective date of the changes is 7/1/11 to provide sufficient time to review and revise the affected funds if desired. We will facilitate the reviews by providing summary reports and fund revision mechanisms. UMF Financial Analysts Laura Cook and Vanessa Clark will work with your financial officers to distribute reports and answer questions.

**Background:**

Currently, quasi endowments have the “best-of-both-worlds” with investment returns and fees of the permanent endowments plus 100% liquidity of Demand Funds. The inability to effectively predict the liquidity needs of the quasi funds is problematic and presents investment management challenges. In addition, liquidity is very expensive and it is not equitable for the permanent endowments to subsidize the high cost of quasi liquidity.

**New Guidelines:**

- **Quasi Fund Liquidity**
  - Cash draws from quasi endowment funds will be limited to 20% of the fund balance per year.
    - If more than 20% liquidity is needed, the funds are not ideally suited for the long term pool.
    - Exceptions will be considered on a case by case basis. We want to ensure that the new rule does not have negative operational or donor implications.
  
- **Quasi Fund Fee Premium**
  - A 50 basis point fee premium will be implemented to reflect the increased value of spending flexibility and access to principal.
  - This will bring the annual administrative fee on quasi endowments to 1.5%
    - If increased spending flexibility is not required or needed, colleges may consider reclassifying the quasi to a permanent endowment.
  - The administrative fee on permanent endowments remains at 1%

**Summary Messaging for Stakeholders:**

- The ability to manage liquidity more effectively will result in improved investment returns for the entire pool.
- Positive messaging on fees:
  - UMF fees are very reasonable and lower than peer averages
  - The permanent endowment fee of 1% reflects UMF's commitment to administrative efficiency.
  - The revised quasi fee of 1.5% is lower than many institutions' permanent endowment fees.

Please contact me with questions or concerns. Thank you.

A handwritten signature in black ink, appearing to read "Kathy", with a long horizontal flourish extending to the right.

Cc: U of M Provost, MMF CEO & CFO, UMF VP's, Directors and RDO's